A photograph of a man and a woman on a boat, looking out at the ocean. The woman is on the left, wearing a white cable-knit sweater, and the man is on the right, wearing a light-colored jacket over a checkered shirt. They are both smiling and looking towards the horizon. The background shows the ocean with white-capped waves under a cloudy sky.

Enhancing Your Pension

Earning and Purchasing Service Credit

About the Office of Retirement Services

The Office of Retirement Services (ORS) administers retirement programs for Michigan's state and public school employees, judges, and state police. Our vision is to provide fast, easy access to complete and accurate information and exceptional service for our more than half million members.

About This Publication

The intent of this publication is to summarize basic Defined Benefit plan provisions. Should there be discrepancies between this publication and the actual law, the provisions of the law govern.

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Enhancing Your Pension

**Earning and Purchasing Service Credit
in the State of Michigan Defined Benefit Plan
August 2003**



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I. Service Credit and Your Pension

As a state employee in the Defined Benefit plan, you accumulate service credit for each pay period in which you work.

Service credit is important, because your *eligibility* for your pension depends on how many years of service you have. Most members need 30 years of service to be able to retire at age 55.

Pension Eligibility

55 with **30** OR **60** with **10**
Age **Years of Service** **Age** **Years of Service**

In addition, your pension *amount* is calculated using your years of service. Most members will receive a benefit that multiplies their final average compensation by 1.5 percent times their years of credited service.

The Pension Formula

FAC x **1.5%** x **YOS**
Final Average Compensation **Pension Factor** **Years Of Service**

Meet Mr. Mac, who is a member of the State Employees Retirement System. He will guide you through this book with examples and the steps to retire.

Here's
an example.



SERVICE CREDIT DETERMINES ELIGIBILITY AND PAYMENT AMOUNT

Mr. Mac is 60 years old. He has worked for the state for 24 years, earning around \$35,000 each year for the last several years.

Mr. Mac is *eligible* for his pension because he meets the age and years of service eligibility requirements.

Mr. Mac's yearly pension *amount* will be \$35,000 times 1.5% times his 24 years of service.

Some categories of plan members have different eligibility and calculation rules. To find out how much service credit you'll need or how your benefit will be calculated, see Appendix A – Retirement At A Glance. Specifics can also be found in other ORS publications listed at the end of this booklet.

In this book, we explain how you earn service credit while employed by the state, as well as how you might be able to have other qualifying service count in your state service totals. You will find eligibility and cost information on the different types of service credit you can transfer or purchase. We also include details on how to initiate a purchase, and the different ways you can pay for the service credit.

II.

Getting Credit for Your Work



service credit
noncentral
agency

This section explains how service is credited to your employment record, whether earned or purchased. If, after reading this section, you decide you'd like to purchase additional service credit to boost your pension amount (or to become eligible earlier), you'll find details on the different types and ways to pay in subsequent sections.

How You Earn Service Credit

Your **service credit** reflects the years, or fractions of years, you have worked for the state of Michigan or one of its **noncentral agencies**. Noncentral agencies are state-affiliated organizations whose employees are covered under the State Employees' Retirement Act: American Legion, American Veterans, Business Enterprise Program, Disabled American Veterans, Mackinac Island State Park, Marine Corps League, Michigan State Bar, Military Order of the Purple Heart, Wayne County Clerk Recorders Court, Third Circuit Court, or 36th District Court.



For retirement purposes, 2,080 hours equals one year. You are credited with a full year if you work 2,080 regular hours; however you may earn no more than one year of credit in any given year. Only regular hours are counted (overtime hours are not included in the 2,080 hours and cannot count for additional service credit).

<u>Type of Employment</u>	<u>Period of Time</u>	<u>Service Credit Earned</u>
Full-time	1 year - 2080 hours	1 year
Full-time	1 pay period - 80 hours	0.0385 of a year

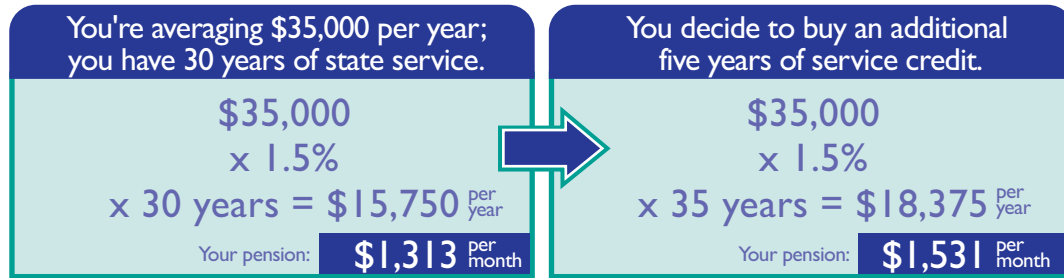
If you work less than full-time.

Any work that is less than full-time or intermittent (for example, a job-share position or seasonal work) is evaluated using the regular hours worked converted to a fraction of a year. The following table shows how full-time and part-time employees earn service credit in proportion to the hours worked.

<u>Type of Employment</u>	<u>Period of Time</u>	<u>Service Credit Earned</u>
Part-time or Job Share	1 year - half-time	0.5000 of a year
Part-time or Job Share	1 pay period - 40 hours	0.0192 of a year

Adding to Your Service Credit

As you know, the longer you work the higher your pension will be.



But there are other ways to increase the years of service factor in your pension calculation. Your plan permits the following:

- Service credit for certain other employment may be granted or transferred.
- Service credit may be purchased.
- Service credit may be restored if you withdrew your personal contributions to the system after a prior period of state employment and wish to repay the full amount withdrawn, with interest.

In this section, we'll provide an overview of these three concepts. You will get more details on each type of service credit and its specific rules, costs, and application process in Section III.

Service credit may be granted or transferred.

You can get credit (at no cost) while on any military leave of absence that occurs in the course of your state employment, and while you are receiving workers' compensation and still on the state employment roster.

You may be able to purchase or be credited for your prior service with Michigan public schools, certain universities, and employment with a Michigan court. If you were a former enlisted state police officer or participated in CETA (Comprehensive Employment and Training Act), credit could be granted. Whenever you get credit for such service, whether granted or purchased, you have to give up your rights to any benefit that would have been payable under the other pension system.

If you have worked for other Michigan governmental units (public school, university, or a local government, for example), you may be able to combine that service with your state service to qualify for a pension. In this case you would not have to give up your right to the other pension. The ability to combine service for eligibility purposes (it won't count in calculating your pension payment amount) is permitted under Act 88 - Reciprocal Retirement Act of 1961.



Purchasing service credit.

You can purchase universal buy-in (UBI) service credit, which is available to all Defined Benefit plan members.

You may be able to buy service credit for maternity, paternity, or child-rearing time; Michigan public school or university employment; active duty military service; your work for a city, county, township, village in Michigan, another state, or the federal government; or various other agencies, courts, and federal programs.

Most types of service credit have a maximum purchase limit, usually five years.

Our online
benefit
estimator

is a great way to
see how added
service
credit would
affect your
pension.

Any service credit purchase or transfer must be completed while you are an active member—that is, while you are still employed by the state. As a general rule, purchasing early in your career is best because it usually costs less and you may be able to spread out your payments for the credit via tax-deferred payroll deductions.

Service credit purchases apply to retirement credit only. Your seniority rights or leave accruals will not be affected by your purchase.

“Buying time” isn’t always an easy decision. You have to weigh the costs, which can be considerable, with the benefits. Fortunately, there’s a terrific tool to help you decide: our online calculator. Log on to **www.michigan.gov/ors** and navigate to the Defined Benefit Plan/Benefit Estimator. You can enter any number of “what-if?” scenarios, and the estimator will calculate the pension benefit, quickly and easily.

Each type of service credit has different costs, eligibility rules, limits, vesting requirements, and application procedures. Complete details for each type of service credit are provided in Section III.

Repaying your refunded contributions.

Before 1974, the state's Defined Benefit plan was contributory, meaning that members contributed to the plan through payroll deduction. If you previously worked for the state, and withdrew your contributions when you terminated your employment, you canceled all the prior service credit you had earned.

Now you find yourself employed by the state again. You can reinstate your prior service credit by repaying the contributions you withdrew, plus interest. You would have to repay the entire refund amount while you are an active member—that is, while you are still employed by the state. Because the interest compounds, the sooner you repay your refund the cheaper it will be.

Note: If you were separated for 15 or more years before returning to state employment, you must be a member of this system for 5 years before you are eligible to repay the refund.





personal
contributions

Your purchases are personal contributions.

Your payments for service credit are put into a **personal contribution** account, separate from retirement system funds, along with any personal contributions from your earnings prior to July 1, 1974, when the retirement system was contributory. Interest is credited annually on member contributions that have been on deposit for a full year.

If you die before reaching retirement eligibility and have personal contributions remaining in your account, any balance is paid to your beneficiary. While you're an active state employee, use the *State Employees Beneficiary Nomination* form to let ORS know who should receive the balance of your contributions (or, if you're vested, a monthly survivor pension).

III.

Types of Service Credit

Each type of service credit has its own eligibility rules, special conditions, costs, and application procedure. In this section we provide those details about each service credit type. We also provide a summary chart in Appendix B: Service Credit Costs and Limits.

It's not uncommon for members to have a number of service credit purchase or transfer options. If this is your situation, ask an ORS customer service representative to explain the ramifications of each so that you can make an informed choice that best meets your needs.





vesting

You must be vested for your purchase to count.

Unless otherwise noted, most purchases won't count in your service credit total until you are vested. You are **vested** when you have sufficient service to qualify for a future monthly benefit, whether or not you continue working for the state. Most state employees are vested after the full-time equivalent of ten years (some unclassified legislative employees, executive branch employees, and Department of Community Mental Health employees involved in a facility closing are vested after five years of state employment). Most credit you buy can't count toward your ten- or five-year vesting requirement.

All service credit purchases must be completed while you are an active state employee.

A note about costs.

For many types of service credit, your cost for each year purchased will be a percentage of your previous highest fiscal year (October 1 through September 30) income earned as a state of Michigan employee. That percentage, or actuarial rate, is found in the Actuarial Cost Table at the end of this section. Use your age as of the beginning of the current fiscal year to find the applicable actuarial percentage.

If you worked less than full-time during the previous highest fiscal year, your part-time wages will be equated to full-time to determine the cost of your service credit purchase.

SERVICE CREDIT TYPES

On the following pages, we list the various types of service credit that you may be able to purchase or transfer, arranged in most-common to least-common order.

■■ UNIVERSAL BUY-IN ■■

Eligibility:

Any member of the State Employees' Retirement System can purchase up to five years of universal buy-in (UBI) service. It is called universal because it may be purchased without being linked to other service performed outside of state employment.

Conditions:

- You may purchase any fraction of a year increment.
- You cannot use the service in your pension calculation until you meet the minimum vesting requirements.
- UBI credit replaces medical leave of absence, fee branch manager, and Vista/Peace Corps service credit purchase options that were eliminated from law as of August 1, 1998.
- You may purchase up to five years of UBI service; however this amount is offset by any previous medical leave of absence, Vista/Peace Corps, and/or fee branch manager service purchases you have made. For example, if you already purchased two years of medical leave of absence service, you could purchase up to a total of three years of universal buy-in credit.

You can request a
UBI “bill”
by calling our
800 number
and following the
phone prompts
anytime of
day or
night, or you
can request a bill
by email.

- You cannot purchase more than ten years total from any combination of universal buy-in; maternity/paternity/child rearing time; other state or federal government service; and/or Michigan city, county, township, village service.

Cost:

Your cost is the actuarial rate in effect at the time of payment. Refer to the Actuarial Cost Table at the end of this section.

Application:

Requires no special application. Request a *Member Billing Statement* as described in Section IV.



■■ MATERNITY/PATERNITY/CHILD REARING TIME ■■

Eligibility:

You may purchase up to five years of service credit if, for purposes of maternity, paternity, or child rearing, you either separated from state service; or reduced your hours of state service.

Conditions:

- You may purchase any fraction of a year increment.
- You cannot use the service in your pension calculation until you meet the minimum vesting requirements.
- You cannot purchase more than ten years total from any combination of universal buy-in; maternity/paternity/child rearing time; other state or federal government service; and Michigan city, county, township, village service.

Cost:

Your cost is the actuarial rate in effect at the time of payment. Refer to the Actuarial Cost Table at the end of this section.

Application:

Complete an *Application to Purchase Maternity/Paternity/Child Rearing Credit*. Send it to ORS with a copy of your child's birth certificate or final adoption papers. (For more information on how to purchase service credit, refer to Section IV.)



■ ■ MICHIGAN CITY, COUNTY, TOWNSHIP, OR VILLAGE ■ ■

Eligibility:

You may purchase up to five years of service rendered with a city, county, township, or village in Michigan. (See also refer Act 88 - Reciprocal Retirement Act, in this section.)

Conditions:

- You may purchase any fraction of a year increment.
- Only full-time employment can be purchased.
- You must relinquish all rights to a pension benefit based on this service.
- You cannot purchase more than ten years total from any combination of universal buy-in; maternity/paternity/child rearing time; other state or federal government service; and Michigan city, county, township, village service.

Cost:

Your cost is the actuarial rate in effect at the time of payment. Refer to the Actuarial Cost Table at the end of this section.

Application:

You and your previous employer must complete an *Application to Purchase Credit for Other Governmental Employment*. Follow the directions provided on the form. (For more information on how to purchase service credit, refer to Section IV.)

■ ■ OTHER STATES OR FEDERAL GOVERNMENT ■ ■

Eligibility:

You may purchase up to five years of service rendered with another state or the federal government.

Conditions:

- You may purchase any fraction of a year increment.
- Only full-time employment can be purchased.
- You must relinquish all rights to a pension benefit based on this service.
- You cannot purchase more than ten years total from any combination of universal buy-in; maternity/paternity/child rearing time; other state or federal government service; and/or Michigan city, county, township, village service.

Cost:

Your cost is the actuarial rate in effect at the time of payment. Refer to the Actuarial Cost Table at the end of this section.

Application:

You and your previous employer must complete an *Application to Purchase Credit for Other Governmental Employment*. Follow the directions provided on the form. (For more information on how to purchase service credit, refer to Section IV.)

You can find
applications
for most types of
service
credit under
Publications &
Forms on the
ORS website.

■■ ACTIVE DUTY MILITARY SERVICE ■■

Eligibility:

You can receive credit for time you spend in active duty military service. There may or may not be a cost to you, depending on whether your active duty service occurred during (intervening) or outside of (nonintervening) your state employment.

Your service is considered **intervening service** if you leave state employment, directly enter active duty in the U.S. armed forces, including reserve components, and return to employment with the state of Michigan within six months of discharge.

Nonintervening service is active duty service that does not interrupt your state of Michigan service.

Conditions:

- You cannot receive credit for military service if you receive credit for the same service under another retirement system. However, this restriction doesn't apply if you will be eligible to retire from the federal government for service in the reserve component, or if your military retirement is based on a disability (in other words, it is not a regular age and service retirement).
- Intervening: You may receive up to five years of service credit at no cost if you leave state employment, directly enter active duty in the U.S. armed forces, including reserve components, and return to state of Michigan employment within six months of discharge.
- You may use intervening military credit to satisfy your vesting requirements.



*intervening
military service*

*nonintervening
military service*

- Nonintervening: If your active duty U.S. military service did not interrupt your state service, you can purchase up to five years of credit.
- Nonintervening military service may be purchased in any fraction of a year increment.
- You cannot use nonintervening military service in your pension calculation until you meet the minimum vesting requirements.

Cost:

There is no cost for intervening service credit.

If your military service was nonintervening, your cost will be 5 percent of your previous highest fiscal year (October 1 through September 30) income earned as a state of Michigan employee times the number of years of military credit you are buying. If you worked less than full-time during the previous highest fiscal year, your part-time wages will be equated to full-time to determine the cost of your service credit purchase.

Application:

Mail a written request and a photocopy of your military discharge papers (DD214) showing entry and separation dates to ORS.

For copies of your military papers, write to: National Personnel Records Center, Military Personnel Records, 9700 Page Blvd., St. Louis, MO 63132-5100. You can obtain the request form online by visiting http://www.archives.gov/research_room/vetrecs.

■■ UNIVERSITY SERVICE ■■

Eligibility:

You may be credited with service performed with Grand Valley State University, Michigan State University, Oakland University, Saginaw Valley State University, University of Michigan, or Wayne State University. The service may be granted or purchased, depending on the dates of your employment with the university.

Conditions:

- You may use this credit to satisfy the vesting requirements.
- You must relinquish all rights to any other pension or annuity benefits that may be credited based on this service.
- No partial credit can be granted. Any purchase or transfer must be for all of your prior university service, or none can be credited.



Cost:

University employment prior to July 1, 1974: You may receive credit for your service by paying the contributions you would have made had you been a State Employees' Retirement System member (3 percent of the wages you earned while employed by the university), plus interest.

University employment after July 1, 1974: No cost for the service.

Application:

You and your previous employer must complete an *Application for University Service Credit*. Follow the directions provided on the form. (For more information on how to purchase service credit, refer to Section IV.)



■■ MICHIGAN PUBLIC SCHOOL EMPLOYMENT ■■

Eligibility:

You may get credit for service if you worked in a public school district within the state of Michigan. Your cost, if any, for transferring credit hinges on whether you made member contributions to the Public School Employees Retirement System prior to July 1, 1974 (when the system was contributory).

Note: In 1987, the Public School Employees Retirement System began offering the *Member Investment Plan*, or MIP. This plan allows school employees to enhance their pension with their own contributions. MIP contributions are individual and specific to the Public School Employees Retirement System. As such, any MIP contributions and/or refunds have no bearing on service credit transfers. If you decide to transfer your public school service to state service, you will be provided with appropriate information for handling your MIP contributions.



Conditions:

- Crediting this service follows the same rules and regulations as crediting state service.
- You may use this credit to satisfy the vesting requirements.
- No partial credit can be granted. Any purchase or transfer must be for all of your prior Michigan public school service, or none can be credited.

Cost:

There is no cost for the transfer of credit if your pre-1974 contributions remain on deposit with the Public School Employees Retirement System (you did not receive a refund of your contributions when you left the system).

If you took a refund of pre-1974 contributions, you will be charged the total amount refunded, plus compounded interest, to receive credit for your public school service.

If you began working in the Public School Employees Retirement System after July 1, 1974, and never made contributions to the system, you may transfer your public school service at no cost. (MIP contributions excluded; see note above.)

Application:

Complete an *Application for Transfer of Michigan Public School Service*. (For more information on how to purchase service credit, refer to Section IV.)

You can find
applications
for most types of
service
credit under
Publications &
Forms on the
ORS website.

■■ COURT OF RECORD ■■

Eligibility:

If you were employed by a court in Michigan for a minimum of five years, you may receive credit for this service.

Conditions:

- If you don't have at least five years of court employment, you cannot purchase any court service credit under this provision. (However, your court service could be purchased as Michigan city, county, township, or village service, described in this section.)
- No partial credit can be granted. Any purchase or transfer must be for all of your prior service with the court, or none can be credited.
- You may use this credit to satisfy vesting requirements.

Cost:

If a refund was issued, your cost is the amount of the refund withdrawn from the court, plus interest.

If you did not receive a refund you will have no cost, but any funds on deposit with the court of record must be transferred to ORS in order to receive the credit.

Application:

In order to receive a billing for your court of record service, ask your court employer to address a letter to ORS, on the court's letterhead, with the following information:

- Dates of employment.
- Total employment in years and months.
- Whether the employment was full-time or part-time.
- If employment was part-time, your total hours.
- Any breaks in service.
- Amount and date of refund of contributions, if any.
- If a refund of contributions was not taken, a breakdown of wages earned while employed, by calendar year.
- Whether or not all rights to a pension with the previous employer have been waived.
- The amount of any funds on deposit.



■■ COMPREHENSIVE EMPLOYMENT AND TRAINING ACT (CETA) ■■

Eligibility:

Developed in 1973, CETA was a federally-funded program designed to help increase employment opportunities by offering job experience in public service programs. CETA service is creditable if you were employed by the state of Michigan within 12 months of your separation from the CETA employer. By law, your former CETA employer or your current employer is required to pay an amount equal to contributions that would have been made during the time you worked had you been a state employee. When this payment is received by ORS, you receive credit for the service.

Conditions:

- Your former CETA employer or your current employer must forward any contributions to ORS before service can be credited.
- No partial credit can be granted. Any purchase or transfer must be for all of your prior CETA service, or none can be credited.

Cost:

No cost to you.

Application:

Your CETA employer must certify your service dates and provide other information on a case-by-case basis. Contact ORS for assistance.

■ ■ ENLISTED STATE POLICE OFFICER ■ ■

Eligibility:

If you were a former Michigan State Police officer, separated from that agency, and will not be entitled to a pension benefit from the State Police Retirement System, you may receive service credit for that service under this retirement system.

Conditions:

- Crediting this service follows the same rules and regulations as crediting state service.
- You may use this credit to satisfy the vesting requirements.
- No partial credit can be granted. Any purchase or transfer must be for all of your prior Michigan State Police service, or none can be credited.

Cost:

There is no cost for the transfer of credit if your pre-1974 contributions remain on deposit with the State Police Retirement System (you did not receive a refund of your contributions when you left the system).

If you took a refund of pre-1974 contributions, you must repay the total amount refunded, plus compounded interest, to receive credit for your state police service.



If you began working in the State Police Retirement System after July 1, 1974, and never made contributions to the system, you may transfer your state police service at no cost.

Application:

To receive credit for this service, contact ORS.

■■ COUNTY SOCIAL WELFARE AGENCY SERVICE ■■

Eligibility:

In the mid-1960s, local County Social Welfare offices merged with the state of Michigan and became part of the Department of Social Services, now known as the Family Independence Agency. If you were employed with the Social Welfare Agency on the day of the merger, you may receive credit for your previous county service.

Conditions:

- You may purchase as little or as much of your total County Social Welfare service as you wish.
- You may use this credit to satisfy vesting requirements.
- You must relinquish any other rights to a pension benefit based on your county service.

Cost:

The cost of the service is \$50 per month, or \$600 per year.

Application:

To receive credit for this service, contact ORS.

■■ WORKERS' COMPENSATION ■■

Eligibility:

Full service credit will be given for periods during which you are on a leave of absence and receiving workers' compensation benefits as the result of a duty-incurred disability.

Conditions:

- Credit can be granted only as long as an employer-employee relationship exists.

Cost:

No cost to you.

Application:

If you received workers' compensation payments at any time during the course of your employment with the state and that credit is not reflected on your annual member statement, contact ORS.



■ ACT 88 – RECIPROCAL RETIREMENT ACT OF 1961 ■

Eligibility:

Act 88 - Reciprocal Retirement Act of 1961 allows you to combine service you may have earned with another Michigan governmental unit in order to qualify for a pension. Examples of a governmental unit include (but are not limited to) a township or county, law enforcement division, commission or court, as well as Michigan public schools and universities.

In general, Act 88 helps public servants who have worked either full- or part-time for more than one Michigan governmental employer, but perhaps fall short of being vested with any or all of them. Combining years of service from multiple employers can help you *qualify* for a pension, but the other service won't count in the calculation of your pension amount.

Reciprocity works both ways. If, after serving as a state employee for at least 30 months (2.5 years), you then go to work for another Michigan governmental unit within 15 years, you may be able to count your subsequent employment to meet the vesting requirement. You would then be eligible for a pension based on your state service at age 60.

It's a good idea to talk to your previous employer and ORS if you think Act 88 can help you qualify for a pension.

Conditions:

- You must have a minimum of 30 months (2.5 years) of state of Michigan service credit.
- There cannot be more than a 15-year break in service between your other governmental unit service and your state service.
- Act 88 is only used when other Michigan governmental unit service, combined with your state of Michigan service, qualifies you for a pension you would not receive otherwise.
- Reciprocal service can count toward your vesting requirement, but is not included in your pension calculation.

Cost:

Not applicable.

Application:

Provide a letter from the governmental employer verifying your (1) dates of employment, and (2) hours per day.

■■ REPAYMENT OF REFUNDED CONTRIBUTIONS ■■

Eligibility:

Service credit you earned during a previous period of state employment, but then canceled because you withdrew your contributions when you left, may be paid back to the retirement system to reinstate your service credit.

Conditions:

- If you have been separated for more than 15 years before returning to state employment, you must be a member for 5 years before you are eligible to repay the refund.
- The entire refunded amount must be paid in full prior to your retirement or separation from state service. No partial credit can be granted.

Cost:

The full amount withdrawn, plus interest compounded.

Application:

Inform ORS of the years you worked and the date you took the refund. We will research your record and notify you of the amount and methods of repayment.

ACTUARIAL COST TABLE

This table estimates your cost to purchase universal buy-in; maternity/paternity/child rearing time; city, county, township, or village in Michigan; and other state or federal government service credit.

Directions: Use your age as of the beginning of the current fiscal year (the state fiscal year runs October 1 through September 30). Multiply the applicable percentage rate by your highest previous fiscal year earnings (equating part-time wages to full-time wages) to arrive at the cost of one year of service credit.

Age at Purchase	Percentage Rate	Age at Purchase	Percentage Rate	Age at Purchase	Percentage Rate
up to 25	7.0%	37	10.1%	49	13.7%
26	7.2%	38	10.4%	50	14.0%
27	7.4%	39	10.7%	51	14.2%
28	7.6%	40	11.0%	52	14.4%
29	7.8%	41	11.3%	53	14.6%
30	8.0%	42	11.6%	54	14.8%
31	8.3%	43	11.9%	55	15.0%
32	8.6%	44	12.2%	56	15.1%
33	8.9%	45	12.5%	57	15.2%
34	9.2%	46	12.8%	58	15.3%
35	9.5%	47	13.1%	59	15.4%
36	9.8%	48	13.4%	60 and up	15.5%

IV. How to Purchase Service Credit

To initiate a service credit purchase, you must first find out what type and how much is available for you to purchase. For UBI (universal buy-in credit), you would request from ORS a *Member Billing Statement* as described below. For most other service credit types, you'll start with one of the application forms found on the ORS website.

Once ORS has sent you the *Member Billing Statement*, you can arrange to purchase either by direct payment, tax-deferred payroll deductions, or a qualified plan rollover. In this section, we provide specifics on the process and the three ways to pay for service credit.

Ask for a “Bill”

If the service credit type you're seeking to purchase has no special application form, simply contact ORS to ask for a **Member Billing Statement**. You can do this by phoning the ORS toll-free number and following the menu prompts (see the inside back cover of this booklet for complete contact information). If you request by email, you'll need to provide your full name and address, along with your social security number and daytime phone number.

The *Member Billing Statement* outlines the type of service you can purchase, how much, the cost, and the due date. Although it is called



member billing
statement

Your member
billing statement
must be current to
purchase service credit.
Statements expire at
the end of the fiscal year
on Sept 30.



a billing statement, you're not obligated to buy any or all of the credit, nor are you obligated to purchase by the due date shown. However, the cost of service credit is tied to the state fiscal year, and therefore the cost generally increases each October 1. If you don't purchase the service credit reflected on your "bill" before October 1, you will have to request another billing statement with updated cost information.

For service credit types with specific application forms, ORS will review your records upon receiving the completed form and any required documentation. We will check your eligibility and determine if the credit has no cost or if a

purchase is necessary. If the credit has no cost, you will receive a letter stating the service credit type and amount being credited to your account. If you must purchase the service, you will receive a *Member Billing Statement*.

Please note the following before you proceed with any purchase:

- You can purchase most types of credit in any fractional increment.
- Service credit can never be purchased or granted after you have terminated state employment.

Purchasing by Direct Payment

If you wish to make a direct payment for any or all of the service credit reflected on your *Member Billing Statement*, do the following:

- (1) Prepare a check or money order payable to **State of Michigan – ORS**. Include your name and social security number on the remittance.
- (2) Send it with a copy of your *Member Billing Statement* to:
Office of Retirement Services
P.O. Box 30673
Lansing, MI 48909-8173

If you prefer to make your payment in person, please note that we can only accept payments at our main office in Lansing. Our outreach representatives in Detroit cannot accept any payment.

Purchasing Through Tax-Deferred Payroll Deductions

You can request that payments for your service credit purchase be deducted from your wages. This payment method, called **tax-deferred payments**, or TDP, gives you an easy payment plan plus a significant tax break. The amount you authorize for deduction from your biweekly paycheck is not subject to income tax until you begin receiving your pension at retirement.

While the tax advantages are great, you should be aware that a TDP agreement, once initiated, is *binding and irrevocable*. This means that once you and your human resource representative have



*tax deferred
payments (TDP)*

completed the enrollment process and deductions have begun, deductions cannot stop until the agreement is complete, or you terminate employment.

The IRS also mandates that you cannot have constructive receipt of the tax-deferred funds you use to purchase service credit. Once you establish a TDP agreement to purchase a set amount of service credit, payments must be made through payroll deduction only. You cannot have possession of the funds and then pass them to the retirement system; funds must pass directly from the employer to the retirement system.

If you work for a noncentral agency as defined in Section II, your agency's governing board must have passed a resolution allowing participation in the TDP program. Check with your human resource office to see if you can use TDP to buy service credit.



Deciding how much to have withheld.

The minimum withholding per TDP agreement is \$50. If you're not sure how much you want held out of your paycheck, remember that even if your financial circumstances change later, you can't decrease or stop your deduction. You can, however, increase your deduction—either on an ongoing or a one-time only basis—whenever you wish.

You can also have multiple TDP deductions simultaneously. You may want to set up an agreement to purchase some of the service credit on your current billing statement, and then when you can afford it, initiate an additional agreement. To do so, you simply request an updated billing statement and then establish a new TDP agreement with your human resource office. Remember, though, that each new agreement has its own \$50 minimum deduction, and will be based on the cost in effect at the time the agreement is signed and approved.

Maximums and minimums.

The maximum allowable TDP deduction is your gross compensation, less any required deductions such as social security and Medicare, or other levies or garnishments. Your human resource office can help you determine your maximum deduction.

There is no minimum or maximum time limit. Your TDP agreement can be for as few or as many pay periods as you wish, though you'll want your purchase completed well before you plan to retire.

TDPs and deferred compensation deductions.

TDP deductions do not count as deferred compensation deductions nor do they count *against* deferred compensation deductions. Since TDP deductions are taken before 401 (k) or 457 deductions, however, they lower the amount of your compensation available to be contributed to 401 (k) and 457 plans.

Here's
an example.



TDP AND DEFERRED COMPENSATION WITHHOLDING

Suppose you want to max out your deferred compensation contributions, and suppose the maximum allowed (which is determined by Congress) is \$12,000 per year.

You can have \$12,000 go into your 401(k) plan account and another \$12,000 go into your 457 plan account, for a total of \$24,000 deferred compensation. If you are also buying service credit via TDP, you only need to make sure you have \$24,000 left *after* your TDP and other required deductions have been subtracted from your pay.

How to sign up for the TDP program.

If you decide to purchase any or all of the service credit shown on your *Member Billing Statement* through the TDP program, ask your human resource office for a *State Employees Agreement to Purchase Service Credit Through Tax-Deferred Payroll Deduction* form.

Use the instructions on the back of the form to guide you through its completion, and then return it to your human resource office with a copy of your *Member Billing Statement* (be sure to keep

copies for your records). Your human resource representative will review, sign and date the form, and take action to begin your payroll deductions.

An important note about due dates.

The date your human resource representative signs the form is the effective date of the agreement. That date must be earlier than the “due date” shown on your *Member Billing Statement*, or the agreement is invalid. If the due date has passed before your enrollment is completed, you must obtain an updated *Member Billing Statement* from ORS and complete a new TDP agreement form.

Increasing your scheduled deductions.



If you want to increase your deduction per pay period or make an extra payment, ask your human resource office for another TDP agreement form. You'll need the number of your original TDP agreement, shown at the top right of the form you completed when you established this agreement. Complete the form according to the directions and return it to your human resource office. Contact ORS if you need assistance completing the form or calculating your balance for a one-time additional payment.

While there is no limit to how many times you can increase your deduction, or to the number of one-time additional payments you can make, be aware that you must complete new paperwork each time. It's also important to note that once you increase your per-pay period deduction, the increased deduction amount will continue until the agreement is paid in full.

Your agreement is in effect as long as you're a state employee.

Your TDP agreement remains valid while you are on unpaid leave or temporarily off payroll for any reason. Your human resource office will resume your deductions when you return to work.

If you transfer from one department to another, the agreement is still valid and deductions will continue. However, it's your responsibility to provide the human resource office in your new department with a copy of your agreement and to make sure that deductions continue to be made.

If you leave state employment with a TDP balance.

If, for some unforeseen reason, you find that you must leave state employment before you're able to pay off your TDP balance, you have a few options for the remainder. How you handle it depends on whether you need the credit to qualify for retirement benefits.

- **Get partial credit.** Pro-rata credit will be granted for universal buy-in, military, maternity/paternity/child rearing, or government purchases completed before leaving employment (provided you are vested).

However, if you are using TDP to repay a refund or buy university, Michigan public school, or court of record credit, no partial credit can be granted. If you can't fully complete the purchase of the entire amount available before you terminate, you cannot be credited for any of the service.

- **Increase your scheduled deductions.** You can increase your deductions each pay period, or request that all or part of any final compensation, such as accrued leave payoffs, be applied

toward your purchase. For either option, ask your human resource office for another TDP agreement form as explained previously. Remember that required deductions such as social security and Medicare taxes are withheld from any final compensation first, so have your human resource office help you figure the net amount available for your payoff.

- **Direct payment or rollover.** You can make a direct payment, or you can “roll over” funds from a qualified retirement plan such as your 401 (k) or 457 plan to pay off or pay down your TDP balance (qualified plan rollovers are explained below). To apply a rollover or direct payment against your TDP balance, you must have filed a retirement application or terminate your employment within 90 days after the rollover certification or direct payment is received by ORS. It is also important to coordinate your payoff with ORS because your TDP balance changes with each paydate. An ORS customer service representative can help you determine your balance, explain the procedure to follow, and provide the necessary forms.

Purchasing With a Qualified Plan Rollover

A **qualified plan rollover** is the process of moving money from a qualified (as defined by IRS) pretax investment account/retirement plan to another without incurring taxes or penalties on the money being transferred.

The IRS recently expanded these definitions, so now you can “roll over” money you have saved in most pretax retirement accounts and use it to

If you're buying service with a rollover, be sure to allow enough time for your plan administrator to send the payment to ORS.



*qualified plan
rollover*

purchase service credit. A qualified plan can be your 401 (a), 401 (k), 403(b), 457, as well as conduit IRAs (Individual Retirement Accounts) from any of these sources. A traditional IRA cannot be used to purchase service credit. Your Deferred Compensation 401 (k) and 457 plans administered by CitiStreet are qualified.

How to request a rollover.

If you decide to purchase any or all of the service credit shown on your *Member Billing Statement* with a rollover, request or download a *Qualified Rollover Certification* form from ORS.

This form includes detailed instructions on how to initiate a rollover. Complete and return it to ORS so that we know how much you intend to roll over to purchase service credit. It is then your responsibility to arrange with your plan administrator to send the rollover payment directly to ORS, following the instructions on the form. If CitiStreet is the plan administrator, all you need to do is send CitiStreet a copy of both forms to initiate the rollover. CitiStreet usually then sends your funds directly to ORS within 2-3 weeks.

Be sure to allow ample time for your plan administrator to send in the rollover payment. Some financial institutions take several weeks, or even months. This can cause quite a headache if the payment arrives after the critical September 30 due date. It's an even bigger headache if you've got your retirement date set—remember that we cannot accept any payment for service credit after you have terminated state employment.



When ORS receives your rollover payment, you'll be issued a receipt and your retirement account will be updated with your service credit purchase.

Rollovers are handled between ORS and the investment institution holding your funds (your plan administrator) acting on your request. Your personnel office should not be involved.

Rollovers must be for the exact amount of the purchase.

Be sure that your plan administrator doesn't send more than the amount shown on your *Member Billing Statement*, because taxes and penalties could apply. If too much money is submitted, you'll be asked whether you wish to (1) purchase additional service credit, if available; (2) return the excess money to the rollover institution; or (3) have the excess refunded to you. If the excess is refunded to you, taxes and penalties may apply.

Purchasing With a Rollover and a TDP

You can combine methods of payment to purchase service credit. We suggest, however, that if you plan to purchase some service credit using a rollover and some through tax-deferred payroll deductions (TDP), complete the rollover *before* you enter into a TDP agreement.



PAYING WITH A ROLLOVER AND A TDP

Here's
an example.



Let's say that your *Member Billing Statement* shows that you can purchase \$6,000 worth of service credit (shown as *total amount due* on the statement.) You have \$4,000 in a qualified 401 (k) account. You can request a tax-deferred rollover of the \$4,000 to purchase that amount of service credit. You would then request a new *Member Billing Statement* from ORS, which should now show \$2,000 as your total amount due. You could purchase this remaining available service credit via TDP, or with a check or money order.

If you are terminating or retiring before your TDP agreement is paid in full, you may be able to use a rollover to pay down or pay off the TDP balance. If these conditions apply to you, contact ORS for assistance. We will help you determine the balance and complete the proper forms.

Reviewing Your Annual Member Statement

Once a year, ORS will send you a statement showing your accumulated service credit, both earned and purchased. Carefully review your statement for accuracy by comparing it to the previous year's statement. Be sure to keep your statements with your important papers.

V.

Rounding Out Your Retirement Plans

You know how important it is to have a plan for your retirement years, and we don't just mean what kind of fish you're going to catch or what project you're going to take on. Everyone, regardless of age, should know how much money will be needed in retirement, and have a plan for reaching that goal.

Just the fact that you're reading this booklet tells us that you have a plan and that you're working on your goals. It's also clear that you're thinking about ways to boost your retirement income. Here are a few other items you may not have considered.



*final average
compensation*

Increasing your FAC.

You know that your pension is a factor of your service credit totals and your **final average compensation**, or FAC. Your FAC is the average of your highest three consecutive years of compensation.

This book centers on ways to increase the service credit factor in your pension calculation. You may also be interested how to boost your FAC. The best way, of course, is to accept that pay raise or promotion you deserve. Another is to work overtime or premium time. Saving up your annual leave may be another way.

If your FAC period is your *final* three years of employment (immediately preceding your retirement), some compensation payouts are included in your FAC. Taking your annual leave as a

Your FAC is not always your last 3 years. It is your 3 highest consecutive years of compensation.

payout, rather than using it before you retire, might boost your final salary and thereby your pension amount. The most common types of leave payouts that can count in your FAC include up to 240 hours of annual leave paid at retirement, compensatory (comp) time paid at retirement, and longevity earned during the FAC period.

For more details on what counts and does not count in your FAC, ask for *Retirement Readiness: A Two-Year Countdown*.

Catch up on your deferred compensation.

Don't overlook your Deferred Compensation 401(k) and 457 plans as a way to boost your income in retirement. Remind yourself of the tax advantages when you contribute to your account through biweekly payroll deductions. And refresh your knowledge of all the higher limits and additional incentives the law permits for savers age 50 and older.

If you'd like more information or wish to increase your deferred compensation contributions, contact CitiStreet soon. Most transactions can be handled via CitiStreet's fully interactive website at <http://stateofmi.csplans.com>, or you can call (800) 748-6128 during normal office hours. You might also want to review CitiStreet's *Guide to Termination or Retirement Distributions* so you know the different ways you can have your account paid out to you when the time comes.

CitiStreet has some great
retirement planning aids on its website:
<http://stateofmi.csplans.com>

The 3-legged stool.

A sound retirement is like a 3-legged stool. You can't depend on just your pension, any more than you can rely solely on savings and investments or just your social security in retirement. To be balanced, you need all three.



A typical person retiring at age 55 today should plan to live at least 30 more years. To retain the same purchasing power through 30 or more years of retirement, your income in retirement must increase each year to keep pace with inflation. While your pension and social security do have built-in annual increases, you'll be depending on savings to supplement any gaps.

That's one of the reasons we suggest you review your plan once a year to see if you're on target. Add up your retirement savings and deferred compensation funds, obtain a recent social security statement that estimates your benefit at retirement, and update your pension calculation. If you need to adjust your goals, or your plan, do it sooner rather than later.

VI.

To Your Credit

We hope that after reading this booklet you have a better understanding of how service credit, both earned and purchased, affects your pension payment. We also hope you now have sufficient information to decide whether to enhance your pension by adding to your service credit, and if so, how to begin.

Please don't hesitate to contact us if you have any questions. The ORS vision—to provide complete and accurate information and exceptional service—is one we take very seriously.

For complete contact information, see *At Your Service* on the inside back cover of this booklet.

YOUR RESPONSIBILITIES

- **Read this booklet to understand how service credit affects your pension amount.**
- **Review carefully the member statements ORS sends to you each year.**
- **Become familiar with the offerings on the ORS website, including the online benefit estimator.**
- **Do a yearly checkup on your progress toward retirement goals, and make adjustments as necessary.**
- **Keep ORS informed of your beneficiary.**

OTHER ORS PUBLICATIONS

The following publications are available on the ORS website, or you can email or phone ORS for a copy.

Your Retirement Plan: An Overview of the Defined Benefit Plan. This publication is a handbook that can be referenced by members at any time in their career. It provides general information about the Defined Benefit plan, as well as suggestions for long-term retirement planning.

Retirement Readiness: A Two-Year Countdown. For Defined Benefit plan members who are within a few years of retiring. This book contains specifics on how pensions are calculated, the various payment options, how to prepare for retirement, and the application process.

After You Retire: What Every Pension Recipient Should Know. You will receive this booklet when you apply for your pension. It tells you what to expect, and how and when you should contact ORS after your retirement benefits begin.

Watch for If You Become Disabled: Your State Disability Protection, and Leaving State Employment: Effects on Your Pension. These additional booklets for Defined Benefit plan members will be available soon. Watch the ORS website for details.

Retirement At A Glance

Retirement Type	Age and Service Requirements	Straight Life Pension Formula
Full Retirement	Age 60 with 10 years of service. Age 55 and working with 30 years of service. <i>(Unclassified legislative, executive branch, and Department of Community Health employees involved in a facility closing need 5 years of service at age 60.)</i>	$FAC \times 1.5\% \times YOS$
Early Reduced	Age 55 with at least 15 years of service and less than 30 years of service.	Straight life pension MINUS .5% for each month before age 60
Covered Retirement	Age 51 with 25 years of covered service.* Age 56 with 10 years of covered service.* <i>*Your last 3 years must be in a covered position.</i>	Pension until age 62: $(FAC \times 1.5\% \times \text{uncovered } YOS)$ PLUS $(FAC \times 2\% \times \text{covered } YOS)$ Pension at age 62: $FAC \times 1.5\% \times YOS$
Conservation Officers	Hired before April 1, 1991: No age requirement; 25 years of service with 20 years as a conservation officer.* Hired after April 1, 1991: No age requirement; 25 years of service with 23 years as a conservation officer.* <i>*Your last 2 years must be as a conservation officer.</i>	2-year $FAC \times 60\%$

Retirement At A Glance

Retirement Type	Age and Service Requirements	Straight Life Pension Formula
Community Health Facility Closures	Age 51 with 25 years of service.* Age 56 with 10 years of service.* Any age with 25 years in a closing facility. <i>*Your last 5 years of service were in a closing facility.</i>	$FAC \times 1.5\% \times YOS$
Duty Disability Duty Death	No age or service requirements.	Please contact our office.
Nonduty Disability Nonduty Death	No age requirement; 10 years of service.	Please contact our office.

Service Credit Costs and Limits

Type	Cost	Limit
Universal Buy-In <i>Anyone can buy</i>	Actuarial cost	5 years, reduced by purchases of credit types eliminated from law as of 8/1/98
Maternity/Paternity/Child Rearing Time City, County, Township, Village in Michigan Other States or Federal Service	Actuarial cost	5 years No more than 10 years total of any combination of universal buy-in; maternity/paternity/child rearing time; city, county, township, or village in Michigan; and other state or federal government service credit
Active Duty Military Service	Intervening: no charge Nonintervening: 5% of highest previous fiscal year salary	5 years 5 years
University Service	Pre-1974: Contributions that would have been made on wages earned, plus interest Post-1974: no charge	No limit

Service Credit Costs and Limits

Continued

Type	Cost	Limit
Michigan Public School Service	Refunded contributions, plus interest Post 1974: no charge	No limit
Court of Record	Refunded contributions plus interest No charge if contributions not refunded	No limit
Comprehensive Employment and Training Act of 1973 (CETA)	No cost to member	No limit
Enlisted State Police Officer	Pre-1974: refunded contributions, plus interest Post-1974: no charge	No limit
County Social Welfare Agency	\$50 per month \$600 per year	No limit



AT YOUR SERVICE



www.michigan.gov/ors



ORSCustomerService@michigan.gov



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Lansing, MI 48909-7671



(Payments only)
P.O. Box 30673
Lansing, MI 48909-8173



(800) 381-5111
Within Lansing (517) 322-5103



Main Office - Lansing
Walk-ins welcome
8:30 - 5:00

General Office Building
7150 Harris Drive
From I-96, take Exit 98A-South Lansing Road to Canal Road. ORS is in the 3-story brick building at the corner of Canal Road and Ricks Road.



Outreach Office - Detroit
Phone (313) 456-4010 for appointment

Cadillac Place
3068 W. Grand Blvd., Suite 4-700
Phone (313) 456-4010
From I-75, take Exit 54-Clay Ave/ E Grand Blvd. Head west on East Grand Boulevard for about 3/4 mile to Cadillac Place.



From I-94, take northbound US-10 (Lodge Freeway) to W Grand Blvd exit. Proceed east 3 blocks on West Grand Boulevard to Cadillac Place.



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P.O. Box 30171
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